



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TRANSPORTATION  
LANSING

KIRK T. STEUDLE  
DIRECTOR

June 30, 2008

**TO: Transit Agencies and Certified Public Accountants Performing Public Transportation Audits**

**SUBJECT: FY 2008 and FY 2007 Audit Information for June 30th Year Ends**

This letter supplements the revised Audit Guide for Transportation Authorities (Audit Guide) with annual percentages, clarifications, and other necessary information. **Sections IV. E and F offer the option to provide an assurance rather than itemizing and explaining certain revenues. Section V. A has a new, very important requirement.**

Please comply fully with this letter and the requirements in the Audit Guide. In order to better assist you, a checklist has been developed to help ensure compliance. Noncompliance with anything identified on this checklist (when applicable) will result in the immediate notification that the audit is insufficient with a thirty-day period in which to have the audit corrected and resubmitted to us. This checklist is not intended to be all inclusive and should not be used as a substitute for reading and understanding the Audit Guide.

Both the Audit Guide and the checklist can be located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box, then click on "Audit/Accounting Information."

**I. Reimbursement Percentages Necessary to Calculate State Operating Assistance**

Based on the FY 2008 and FY 2007 budgeted distribution, nonurbanized areas and urbanized areas under 100,000 population were reimbursed at:

FY 2008:	36.1508 percent based on budget
FY 2007:	38.6208 percent based on budget

Urbanized areas over 100,000 population were reimbursed at:

FY 2008:	30.6260 percent based on budget
FY 2007:	32.5231 percent based on budget

The calculation of State Operating Assistance is explained on page 30 of the Audit Guide.

**II. Information Necessary to Report and Calculate Federal Funding**

A. The calculation of Federal Section 5311 is explained on page 30 of the Audit Guide. The reimbursement percent for Section 5311 is:

FY 2008:	16 percent
FY 2007:	17 percent

B. FTA Apportionments and Allocations can be located at:

FY 2008:

<http://a257.g.akamaitech.net/7/257/2422/01jan20081800/edocket.access.gpo.gov/2008/pdf/08-214.pdf>

FY 2008 Supplemental:

<http://a257.g.akamaitech.net/7/257/2422/01jan20081800/edocket.access.gpo.gov/2008/pdf/08-593.pdf>

FY 2007:

<http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/07-1290.pdf>

C. The website for the Catalog of Federal Domestic Assistance (CFDA) is on page 8 of the Audit Guide. This page also includes a summary of common transit CFDA numbers.

For assistance to determine the amount of state, and some federal, revenue paid to transit agencies, contact Lisa Lubahn at [lubahn1@michigan.gov](mailto:lubahn1@michigan.gov). or 517-241-1893.

III. **Necessary Columns on Schedule 3 "Operating and Contract Expenses" (page 27 in the Audit Guide for transit agencies with a June 30th year end)**

- A. Expenses associated with operating contracts (e.g., Specialized Services, Section 5316 (JARC), and Section 5307 capital contracts that fund operating expenses) must be shown separately in the audit by contract and by year. For example, Section 5307 capital contracts are executed yearly and usually cover a three year period. Therefore, each contract has to be identified separately by year.

	MI-90-x381 02-0049-z5 FY 04 \$5307	MI-90-x399 02-0049-z10 FY 05 \$5307	MI-90-x481 02-0049-z27 FY 06 \$5307	MI-90-x016 02-0049-z20 FY 06 JARC	• • •	Total
Expenses:						
Labor		\$77,938	\$29,400	\$23,259		\$Sum
Fringes		47,752	14,036	15,450		\$Sum
Tires	7,050	3,666				\$Sum
•						
•						
•						
Depreciation						
Total Oper. Exp.	\$ Sum	\$ Sum	\$ Sum	\$ Sum		\$Sum

**Do not lump similar contracts together:**

Expenses:	<u>\$5307 Contracts</u>	<u>JARC Contract</u>	• • •	<u>Total</u>
Labor	\$107,338	\$23,259		\$Sum
Fringes	61,788	15,450		\$Sum
Tires	10,716			\$Sum
•				
•				
•				
Depreciation				
Total Oper. Exp.	\$ Sum	\$ Sum		\$Sum

**Do not confuse the reporting of expenses with the reporting of revenues discussed in Section IV. F of this letter.**

B. Expenses associated with the State of Michigan's Specialized Services Program must be reported on the schedule if the transit agency:

1. Is the direct recipient of both Specialized Services funds and State Operating Assistance funds, and
2. Actually provides the service or expenses pass-through funds on its books.

If the transit agency provides the service, then expenses must be allocated based on a Bureau of Passenger Transportation (BPT) approved cost allocation plan. A BPT approved cost allocation plan is required even if the transit agency only acts in a pass-through capacity. This pass-through cost allocation plan must state: (1) whether or not the pass-through funds are expenses on the transit agency's books, and (2) that none of the program funds are used to pay for the administrative costs of the organization acting as a pass-through agency.

C. When a transit agency is hired by a Specialized Services subrecipient to provide service, a cost allocation plan is not required. The transit agency only has to subtract out the revenue received from the Specialized Service subrecipient as ineligible on both: (1) OAR Schedule 4E (e.g., page 33 of the Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the Audit Guide).

D. Job Access/Reverse Commute

Federal Section 5316 funds reimburse 50% of JARC operating expenses up to the contract maximum. BPT may or may not match the Federal JARC funds. If BPT:

1. Matches the Federal JARC money, then the expenses must be:
  - i. Allocated in accordance with a BPT approved cost allocation plan, and,
  - ii. Reported on Schedule 3 "Operating and Contract Expenses" (that being, pages 27, 28 and 29 in the Audit Guide).
  - iii. JARC expenses must be reported on an individual OAR Schedule (e.g., see page 39 of the Audit Guide).
2. Does not match the Federal JARC money that a transit agency receives, then:
  - i. No BPT approved cost allocation plan is required, and
  - ii. JARC expenses are included in both (1) OAR Schedule 4E (e.g., pages 32 & 33 of the Audit Guide for an urban agency and page 36 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the Audit Guide).
  - iii. The Federal JARC funds received are subtracted out as ineligible on both: (1) OAR Schedule 4E (e.g. pages 33 of the Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the Audit Guide).

**IV. Ineligible Expenses Reported on OAR Schedule 4E and Schedule 5 "Operating Assistance Calculation"**

Ineligible expenses are explained in the Local Public Transit Revenue and Expense Manuals dated October 1, 2007 through September 30, 2008, and October 1, 2006 through September 30, 2007. These manuals are located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box and click on "Audit/Accounting Information." Specifically note the following with regards to ineligible:

- A. Money received from a Specialized Services subrecipient that originated from BPT is ineligible. Refer back to Section III.C. of this letter for further explanation.
- B. Federal Section 5316 (JARC) money received when BPT did not match the Federal funds is ineligible. Refer back to Section III.D. of this letter for further explanation.
- C. Capital money (e.g., Section 5307, Section 5309, Section 5310, and Section 5311) used to pay for operating expenses is ineligible.

D. Lobbying and Association Dues

1. All expenses associated with lobbying are not eligible and should be subtracted out under 58005 Ineligible Lobbying Expense.
2. If a transportation organization incurs lobbying expenses, a percentage of dues paid to that organization is not eligible and should be subtracted out under 55009 Ineligible Percent of Association Dues. The percentage of association dues ineligible for reimbursement under the State Operating Assistance Program and section 5311 Operating Assistance Program for FY 2008 and FY 2007 are:

	<u>FY 2008</u>	<u>FY 2007</u>
APTA:	14.0 percent	10.0 percent
CTAA:	1.66 percent	1.66 percent
MassTrans:	10.9 percent	12.5 percent
MPTA:	6.99 percent	7.05 percent

- E. Miscellaneous revenue must be itemized and explained so that ineligibles associated with the miscellaneous revenue can be identified. In lieu of itemizing and explaining, a lump sum "miscellaneous revenue" amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the miscellaneous revenue have been subtracted from total expenses as ineligible.
- F. Federal (PTMS code 413xx) and State (PTMS code 411xx) revenue codes must be identified separately by Federal grants and State contract and authorization numbers. In lieu of listing Federal and State grants/contract separately, a lump sum amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the Federal and State revenues have been subtracted from total expenses as ineligible. **Do not confuse the reporting of revenues with the reporting of expenses discussed in Section III. A of this letter.**

V. Additional Requirements and Information

- A. After the 2008 annual audit has been either submitted to BPT or posted to Treasury's website, the transit agency has up to thirty days in which to notify BPT of any inaccuracies in the 2008 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2008 annual audit and certifies that:
1. The transit portion of the audit: (a) is correct, and (b) complies with the Audit Guide.
  2. All ineligible expenses, as defined by the R&E Manual, are properly reported and properly subtracted out as ineligible.

- B. For transit agencies that exceed \$500,000 or more in Federal funds, a copy of its annual audit must be sent to:

Federal Audit Clearinghouse\*  
1201 East 10<sup>th</sup> Street  
Jeffersonville, IN 47132

\*No contact person necessary

If the audit contains an audit finding and/or a status of prior audit findings relating to a Federal award, a copy of the annual audit must be sent to:

Derek Davis, Transportation Program Specialist  
Federal Transit Administration  
200 W. Adams Street, Suite 200  
Chicago, Illinois 60606

- C. The expenditure information on Schedule 2 "Expenditures of Federal and State Awards" is used in MDOT's review of operating and capital contracts. Both Federal and State funding should be included. **This information should be consistent with the fixed assets and the revenues in the financial statements.**
- D. BPT reviews and approves all cost allocation plan methodologies. Page 13 of the Audit Guide requires cost allocation plans used in the preparation of the financial statements and the transit schedules to be identified by name.

To verify that the transit agency has an approved cost allocation plan, visit our website at: <http://www.michigan.gov/mdotptd>. In the "Resources" box, click on "Audit/Accounting Information." Then click on "cost allocation listing." This listing is updated periodically. It is possible that a transit agency's cost allocation plan was approved since the last listing was posted.

If you have any questions about cost allocation plans, please contact Sandy Lovell, Accountant, at 517-335-2525 or at [lovells@michigan.gov](mailto:lovells@michigan.gov).

Please contact Trish D'Itri, Auditing Specialist, at [ditrit@michigan.gov](mailto:ditrit@michigan.gov) or at 517-335-2535 with questions or if you need website information mailed to you.

Sincerely,



Sharon L. Edgar, Administrator  
Bureau of Passenger Transportation